

STATE INSTITUTIONS

SCOPE

The State of Indiana is responsible for the following types of institutions:

- *Correctional (Department of Correction- DOC)*
- *Mental (Family and Social Services Administration – {FSSA}, Division of Disability and Rehabilitative Services; Division of Mental Health)*
- *Other Special Institutions*

Table of Contents

12.1	STATUTORY AUTHORITY	2
12.2	ACCOUNTING THEORY	3
12.3	INTERNAL CONTROLS	4
12.3.1	General Controls	4
12.3.2	Accountability for Funds	4
12.4	BUSINESS PROCESSES	4
12.4.1	Trust Funds.....	4
12.4.1.1	Specific Accounting Procedures.....	5
12.4.1.2	Transactions and Deposits	5
12.4.2	Recreation Funds.....	5
12.4.2.1	Specific Accounting Procedures.....	6
12.4.2.2	Other Items of Interest.....	6
12.4.3	Commissary Funds (Canteen Funds)	7
12.4.3.1	General Accounting Procedures	7
12.4.3.2	Division of Mental Health (FSSA) Canteen Funds.....	7

12.4.3.3	Special Institutions (Schools) Canteen Funds	7
12.4.4	Maintenance Funds	8
12.4.4.1	General Accounting Procedures	8
12.4.4.2	Billing Procedures.....	9
12.4.5	Cafeteria Collections	9
12.4.6	Petty Cash Funds	9
12.4.6.1	State Sales Tax from Petty Cash Purchases.....	10
12.4.7	Monthly Financial Information	10
12.4.8	County Clothing Reimbursements	10
12.4.9	Unclaimed Property – Trust and Recreation Funds	10
12.4.10	Federal Grants.....	11

12.1 STATUTORY AUTHORITY

IC 11-8-2-5, **Commissioner's powers and duties** (DOC), states in part: “(a) The commissioner shall do the following: (1) Organize the department and employ personnel necessary to discharge the duties and powers of the department. (2) Administer and supervise the department, including all state owned or operated correctional facilities.”

IC 4-24-6-9, **Accountability for funds held in trust**, states in part: (a) Except as provided in subsection (c), the superintendent or warden of any institution may not be held personally liable for the loss of: (1) money held in trust for any inmate or patient of the institution; or (2) money deposited in the recreation fund of the institution. . . . (c) A superintendent or warden or a delegate of a superintendent or warden may be held personally liable under subsection (a) or (b) if the loss of money arises from the superintendent's, the warden's, or the delegate's official misconduct. All other losses under this section must be covered by the general blanket performance bond or crime insurance policy under subsection (d).

IC 12-24-13-1, **Accounting and bookkeeping system**, states: "Each division shall develop and implement an accounting and bookkeeping system for each state institution so that the cost of all institutional services provided to a patient can be determined."

IC 12-24-13-2, **Limitation on charges**, states: "A patient, patient's parents, patient's legal guardians, or patient's other responsible relatives may be charged only for services and treatment provided."

IC 12-24-13-4, **Charge structure for institutional services and treatment; liability for payment**, states: (a) Each state institution shall establish a charge structure for institutional services and treatment. The charge structure must be approved by the director of the division before July 1 of each year and, once approved, the charge structure must be effective for the following state fiscal year. (b) Except as provided in section 5 of this chapter, each patient in a state institution and the responsible parties, individually or collectively, are liable for the payment of the charges for the treatment and maintenance of the patient.

IC 12-24-1-3, **Director of division of mental health and addiction (FSSA); contracting power; limitations on closure and operation of certain facilities in Evansville**, states in part: "(a) The director of the division of mental health and addiction has administrative control of and responsibility for the following state institutions:

- Evansville State Hospital
- Evansville State Psychiatric Treatment Center for Children
- Larue D. Carter Memorial Hospital
- Logansport State Hospital
- Madison State Hospital
- Richmond State Hospital
- Any other state owned or operated mental health institution."

12.2 ACCOUNTING THEORY

Institutions which are divisions of agencies of the State should keep financial records as prescribed for the State. These institutions are authorized by statute to maintain bank accounts outside of the state system for certain types of funds – Trust funds, Recreation funds, and Commissary funds. In the State CAFR, institutional trust funds are considered Agency funds; Recreation and Commissary funds are considered Private-Purpose Trust funds. Profits from the operation of a commissary or canteen are to

be deposited into the patients' (or inmates') recreation fund. Interest earned from Trust funds is also to be transferred to these funds.

12.3 INTERNAL CONTROLS

12.3.1 General Controls

Institutions should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are part of the internal control system.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and monthly reports, and incorrect decision making.

12.3.2 Accountability for Funds

At all times, the manual and computerized records, subsidiary ledgers, the control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund to the extent allowable under IC 4-24-6-9.

Expenditure of funds must be reasonable and necessary for the operation of the agency, office or department obtaining the goods or services. Payments for items not reasonable and necessary for the operation of the agency or for items personal in nature are prohibited. Officials may be held personally accountable for the improper expenditure of state or local funds.

Supporting documentation such as receipts, canceled checks, invoices, bills, contracts, etc., must be available for audit to provide supporting information for the validity and accountability of monies disbursed.

Audit costs incurred because of theft or shortage may be the personal obligation of the responsible employee.

12.4 BUSINESS PROCESSES

12.4.1 Trust Funds

Trust funds consist of monies held for the use and benefit of, or belonging to patients, students, members, or offenders while they are residing in the institution. Indiana Code 4-24-6-2 requires the

superintendent of the institution to keep an accurate accounting of the receipts and disbursements of Trust funds on books and records in accordance with the accounting procedures prescribed by the State Board of Accounts.

12.4.1.1 **Specific Accounting Procedures**

An individual subsidiary account must be kept for each patient, student, member, or offender, detailing transactions to the individual account and showing an exact record of the balance on hand. At a minimum, the detail should consist of the transaction date, type of transaction, check or receipt number, amount of transaction, and resulting balance on hand. A control account consisting of the total fund transactions and balances should also be maintained. To ensure accuracy, the control account and individual subsidiary accounts are to be reconciled to each other and to the bank statement each month.

All interest earned on the Trust Fund balance should be transferred to the Recreation Fund monthly. Individual accounts should not be allowed to incur a negative balance. If a negative balance results from an error, all attempts should be made to correct the error. If the error resulted in a patient, student, member or offender being overpaid upon leaving the institution, institution officials should solicit reimbursement. As governed by IC 4-24-6-9, losses must be covered by a general blanket performance bond or crime insurance policy. If officials of the facility are unable to collect from the bond, they should solicit reimbursement from the responsible patient, student, member or offender.

12.4.1.2 **Transactions and Deposits**

Checks and receipts should be prepared timely, but not signed in advance of the event or transactions. All checks and receipts must be pre-numbered or sequentially numbered by a computer system when issued. Documents should be used in sequential order.

Trust Fund receipts should be deposited in depositories whose deposits are insured by the Federal Deposit Insurance Corporation or invested in government securities of the United States. Procedures to ensure adequate internal controls and accountability over Trust Funds would include depositing receipts in a timely manner.

12.4.2 **Recreation Funds**

The purpose of the Recreation funds is to directly benefit patients, students, members, or offenders in the institutions. These funds are to be used at the discretion of the superintendent, subject to the policies and approval of the agency having administrative control over the institution, and shall not be used for any purposes which are covered by state appropriations. Officials or employees may be held personally accountable for the improper expenditure of Recreation funds. Sources of Recreation funds, as listed in IC 4-24-6-7, are:

- *“Gifts to the fund”.*
- *“Profits from the operation of a commissary or canteen”.*

- *“Interest earned by deposit of trust funds in public depositories, or income derived from trust funds invested in United States government securities as provided in section 2 of this chapter”.*
- *“Sale of items produced in occupational therapy”.*
- *“Income derived from any kind of benefit entertainment for the offender or patients.”*
- *“Any other money derived from any source that is not legally prohibited”.*
- *“Any money derived from the income of any trust fund which has been deposited in any special fund of the institution”.*

12.4.2.1 *Specific Accounting Procedures*

A complete record of all receipts and disbursements must be maintained in a Recreation fund ledger. Subsidiary accounts for specific sources and/or uses of funds may be established for ease of accountability, but limited to no more than necessary to reasonably account for the funds. Inactive subsidiary accounts should be closed and the remaining balance combined with the unrestricted subsidiary account. In addition, a control account consisting of the total fund transactions and balances should also be maintained. To ensure accuracy, the control account and individual subsidiary accounts are to be reconciled to each other and to the bank statement monthly.

Each Recreation Fund disbursement should be documented with the following information:

- *Purpose for the disbursement*
- *Person and department requesting the purchase*
- *Date requested*
- *Written approval of the superintendent or designee*
- *Vendor invoice or receipt, if a reimbursement*
- *Date paid, amount of payment, and check number*
- *Verification that the goods were received*
- *Balance on hand*

Special consideration should be given to the appropriate types of disbursements to be made from this fund as shown in IC 4-24-6-6.

12.4.2.2 *Other Items of Interest*

- *Equipment purchases qualifying as capital assets should be itemized and added to the Institution’s ENCOMPASS asset management system.*

- *All vending machine profits and commissions (commissary fund) are to be deposited into the Recreation Fund.*
- *Checks and receipts should be prepared timely and not signed in advance of the event or transaction.*
- *Procedures to ensure adequate internal controls and accountability over Trust Funds would include depositing receipts in a timely manner.*

12.4.3 Commissary Funds (Canteen Funds)

Commissary Funds, also known as Canteen Funds, are used to account for receipts and disbursements associated with a commissary operation, which varies greatly depending on the type of institution.

12.4.3.1 General Accounting Procedures

As noted in IC 4-24-6-7(2), profits from the operation of a commissary or canteen are to be deposited in the Recreation fund. However, for better accounting detail, the receipts/disbursements of the Commissary/Canteen fund may be deposited in/paid from a separate bank account and accounting transactions kept separately. Commissary/Canteen fund receipts should be deposited timely.

A ledger should be maintained to record the transaction date, type of transaction, check or receipt number, amount of transaction, and resulting balance on hand. Each month the ledger should be reconciled to the bank statements. , If the balance on deposit at the end of any quarter (March, June, September, December) exceeds an average of two months expenditures, as calculated annually at the end of the fiscal year for the ensuing fiscal year, such excess should be transferred to the Recreation Fund.

Operational procedures should be developed by institutions operating canteens with cash sales to ensure that a full and accurate accounting of the Canteen Funds is maintained. The procedures should establish a method of verifying that all receipts are deposited to the Canteen Fund and that disbursements are proper for the fund.

12.4.3.2 Division of Mental Health (FSSA) Canteen Funds

Patients receive "coupons" from their Trust Fund accounts which can be redeemed in the Canteen. The business office should reconcile the cash and redeemed coupons to the Canteen Manager's Report prior to deposit. Cancelled coupons should be retained for audit by the State Board of Accounts.

12.4.3.3 Special Institutions (Schools) Canteen Funds

At the Special Institutions (schools), the students are allotted a daily amount that they may withdraw from their trust funds. They are then allowed to purchase items from the Canteen fund. The canteen fund should have a cash register to ring up every purchase. At the end of the day, the cash register should be Z'd out. The funds in the cash register should be reconciled to the Z report. A report should be completed, showing the reconciliation, the day's sales and the day's deposit. A specific change balance should be maintained in the cash register.

Profits should be transferred to the Recreation Fund monthly. An inventory of all items should be maintained and at the end of the month, a physical inventory should be taken and documented. The Business Administrator should prepare the Canteen Fund Balance Sheet on a monthly basis. It should include the following:

- *Statement of Changes in Fund Balance*
- *Bank Reconciliation Statement*
- *Canteen Fund Detail of Receipts and Disbursements*
- *Commissary Fund Operating Statement*
- *Application of Net Income*

12.4.4 Maintenance Funds

As stated in 12.1, each patient or his/her responsible party is liable for the cost of treatment and maintenance in a state developmental center or mental hospital under the administrative control of the Family and Social Services Administration (FSSA). Maintenance Funds are used to account for the collection of these charges. Collections consist of receipts from the patient or responsible party, private insurance, and Medicare. Medicaid is also billed by the institution but collected by FSSA. Collections are to be deposited daily in a designated public depository. Each month, all money collected shall be forwarded to the Treasurer of State to be deposited in the Mental Health Fund.

Maintenance charges to members of the veterans' home shall be deposited in the veterans' home comfort and welfare fund, which shall be used for the "comfort and welfare of the members and in part to reimburse the state general fund. . ." (IC 10-17-9-9)

12.4.4.1 General Accounting Procedures

Individual subsidiary accounts must be kept for each patient detailing all transactions to the individual accounts and showing an exact record of the resulting account balances. A control account should be maintained showing the total fund transactions and resulting fund balance. Accurate balances of amounts due from patients or responsible parties, private insurance, and Medicaid and Medicare must be maintained. To maintain proper accountability, the individual subsidiary accounts must be balanced to the control account monthly. The control and individual subsidiary accounts should be reconciled to the bank statement monthly.

Receipts for the Maintenance Fund should be deposited daily in compliance with IC 5-13-6-1.

Indiana Code 12-24-14-4 requires that on the first day of each month, or within three (3) days thereafter, all money deposited shall be forwarded to the Treasurer of State to be deposited in the Mental Health Fund. The institution should properly complete a Report of Collection and submit it together with a check made payable to the Treasurer of State.

12.4.4.2

Billing Procedures

Institutions have the responsibility of obtaining complete financial information during the admission process and ascertaining whether reimbursement will be made under personal payment responsibility, insurance coverage or eligibility for entitlements.

The Patient Accounts Office at each institution is responsible for the proper, complete and timely billing of charges. The billings to Medicaid, Medicare or private insurance should be done on a monthly basis. Billings to the patient or responsible party should be done monthly, quarterly, or as otherwise arranged in the patient's maintenance agreement. Collections received should be reconciled to charges billed on a monthly basis.

Current FSSA procedures require that, following patient discharge, all open accounts with unpaid balances are to be continuously billed for five months. After six months, the account may be transferred to FSSA's Reimbursement Section for continued collection efforts or subsequent write-off upon approval of the State Attorney General's office.

12.4.5

Cafeteria Collections

**Effective September 1, 2005, employees, visitors, and guests consuming a meal in a state institution cafeteria, dining room, or other venue providing food service to the institution, will be charged the direct costs of the meal (includes the cost of food plus labor) for each meal provided. The Superintendent of each institution is responsible for calculating and revising these costs on an on-going basis. The institution should account for meal sales using meal tickets. To ensure the accountability over meal ticket sales, the following procedures are to be used.*

- *All meal tickets must be pre-numbered and issued in sequence.*
- *A ledger must be maintained which includes the date, ticket numbers, and amount collected.*
- *Collections shall be reconciled to the ledger for agreement and deposited daily in compliance with IC 5-13-6-1.*
- *At month end, a bank reconciliation is to be performed.*
- *Meal tickets must be safeguarded at all times.*

**memo from IDOA to all state institutions, August 17, 2005*

12.4.6

Petty Cash Funds

State institutions may keep small amounts of petty cash on hand to facilitate the day to day operation of the institution. Petty cash funds of a local fund or Special Disbursing Officer fund should be no more than reasonably necessary. The purpose of the disbursement must comply with the restrictions for the appropriate fund and must be adequately documented.

Petty cash should be replenished as necessary. When needed, a check should be made payable to the person going to the bank. In no case should a check be made payable to cash, resulting in the check becoming "bearer paper."

12.4.6.1

State Sales Tax from Petty Cash Purchases

Generally, purchases from any of an institution's accounts are exempt from sales tax and the State's tax exempt number should be used. However, if an employee makes a purchase with petty cash or is to be reimbursed from any of the institution's accounts for a purchase made from personal funds, the purchase is not tax exempt and the employee's reimbursement should include sales tax paid.

12.4.7

Monthly Financial Information

Each institution should file monthly financial statements for its local funds with the state agency having administrative control over the institution. Institutions must use the official approved form applicable to their state agency. Changes may not be made to the approved form without approval of the State Board of Accounts.

12.4.8

County Clothing Reimbursements

Indiana Code 12-24-6 provides for reimbursement from counties to state mental institutions for clothing provided to indigent patients. These collections are to be deposited into the County Clothing Fund 17590, revenue account 422040. Collections should not be deposited as a refund of expenditure to the institution's operating account.

12.4.9

Unclaimed Property – Trust and Recreation Funds

IC 32-34-1-20 provides that Trust Fund checks which have been issued and are outstanding for one (1) year after written are presumed to be abandoned and are to be remitted to the Attorney General's office as unclaimed property. Contact the Attorney General's Unclaimed Property Division for forms and instructions for transfer.

Recreation Fund checks outstanding for two years after December 31 of the year they were written are to be returned to the balance of the Recreation Fund (IC 4-10-10).

Certain institutions receive some type of federal financial assistance, either directly from the federal government or as a sub-grant through another agency.

Accounting for federal funds must be maintained in the ENCOMPASS financial system with all funds deposited with the Treasurer of State and all disbursements made by the Auditor of State. Accounting procedures for federal grants are more specifically addressed in Chapter 7, "Accounting for Federal Funds".